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BANKING AND CURRENCY

INCORPORATING INSTITUT-
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INCORPORATING INSTITUTIONS TO ENGAGE IN INTERNATIONAL OR FOREIGN BANKING

HEARINGS



S. Congress, Senate,
**COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE**

SIXTY-SIXTH CONGRESS.

FIRST SESSION

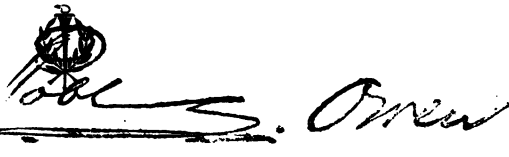
ON

S. 2472

**A BILL TO AMEND THE ACT APPROVED DECEMBER 23, 1913,
KNOWN AS THE FEDERAL RESERVE ACT**

JULY 23, 1919

Printed for the use of the Committee on Banking and Currency



**WASHINGTON
GOVERNMENT PRINTING OFFICE
1919**

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INCORPORATING INSTITUTIONS TO ENGAGE IN INTERNATIONAL OR FOREIGN BANKING.

WEDNESDAY, JULY 23, 1919.

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 o'clock a. m. in the committee room, Senate Office Building, Senator George P. McLean presiding.

Present: Senators McLean (chairman), Gronna, Calder, Newberry, Keyes, Owen, Fletcher, Henderson, and Walsh.

The committee had under consideration the following bill (S. 2472):

[S. 2472, Sixty-sixth Congress, First Session.]

A BILL To amend the act approved December 23, 1913, known as the Federal Reserve Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the act approved December 23, 1913, known as the Federal Reserve Act, as amended, be further amended by adding a new section as follows:

"BANKING CORPORATIONS AUTHORIZED TO DO FOREIGN BANKING BUSINESS.

SEC. 25a. Corporations to be organized for the purpose of engaging principally in international or foreign banking or other financial operations, or banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five.

"Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulations of its business and the conduct of its affairs.

"Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Federal Reserve Board and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

"First. The name assumed by such corporation, which shall be subject to the approval of the Federal Reserve Board.

"Second. The place or places where its operations are to be carried on.

"Third. The place in the United States where its home office is to be located.

"Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

"Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

"Sixth. The fact that the certificate is made to enable the persons subscribing to the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

"The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be-

forwarded to the Federal Reserve Board to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate the association shall become and be a body corporate, and as such and in the name designated therein shall have power under such conditions and regulations as the Federal Reserve Board may prescribe to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by an act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, a majority of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof; dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Federal Reserve Board regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

"Each corporation so organized shall also have power:

"(a) To purchase, sell, discount, and negotiate notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell securities, including the obligations of the United States or of any State thereof; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue letters of credit; to purchase and sell, exchange, coin and bullion; to borrow and to lend money on real and personal security; to receive deposits; and generally to exercise such powers as are incidental to the powers conferred by this act or as may be usual in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business.

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Federal Reserve Board and under such rules and regulations as it may prescribe; and to establish and maintain such additional branches or agencies as the Federal Reserve Board may from time to time authorize even in countries or dependencies not specified in the original organization certificate.

"(c) With the consent of the Federal Reserve Board to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States not transacting business in the United States, except such as in the judgment of the Federal Reserve Board may be incidental to its international or foreign business: *Provided, however,* That without the consent of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus. The provisions of section 7 of the act approved October 15, 1914, entitled 'An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes,' shall not apply to corporations or to officers, directors or employees of corporations organized under this section.

"(d) Corporations organized under authority of this section may be granted permission by the Federal Reserve Board to exercise any or all of the powers specified in section 11 (k) of the Federal Reserve act in so far as the exercise of said power may be necessary in the conduct of the foreign or international business engaged in by such corporations.

"No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business: *And provided further,* That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Federal Reserve Board to commence business as a corporation organized under the provisions of this section.

"No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business. The capital stock of any such corporation may be increased at any time, with the approval of the Federal Reserve Board, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote; and may be reduced in like manner, provided that in no event shall it be less than \$2,000,000.

"A majority of the shares of the capital stock of any such corporation shall be held and owned by citizens of the United States, by corporations chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by the citizens of the United States or of a State thereof. The provisions of section 8 of the act approved October 15, 1914, entitled 'An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes,' shall not be construed to apply to the directors, other officers, agents, or employees of corporations organized under the provisions of this section.

"Shareholders in any corporation organized under the provisions of this section shall not be liable for the contracts, debts, and engagements of such corporation except to the extent of their unpaid stock subscriptions. Any member bank may act as agent for any corporation organized under the provisions of this section for the purpose of dealing with any Federal reserve bank, and the Federal Reserve Board shall establish and promulgate rules and regulations defining and governing transactions which corporations organized hereunder may have with Federal reserve banks, either directly or through the agency of a member bank. No such corporation, however, shall become a member of any Federal reserve bank.

"Should any corporation organized hereunder fail to comply with any of the provisions of the laws of the United States, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Federal Reserve Board. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

"Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

"Whenever the Federal Reserve Board shall become satisfied of the insolvency of any such corporation, it may appoint a receiver, who shall take possession of all of the property and assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however,* That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

"Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Federal Reserve Board. Every such corporation shall make reports to the Federal Reserve Board at such times and in such form as it may require; and shall be subject to examinations whenever deemed necessary by the Federal Reserve Board by examiners appointed by the Federal Reserve Board, the cost of such examinations, including the compensation of the examiners, to be fixed by the Federal Reserve Board and to be paid by the corporation examined."

STATEMENT OF SENATOR ROBERT L. OWEN, OF OKLAHOMA.

Senator OWEN. Mr. Chairman and Senators, I regard the bill introduced by Senator Edge (S. 2472), providing for an amendment of the Federal reserve act, as a proposed new section, section 25a, as a bill of primary, urgent, immediate importance, as I shall presently, explain.

The bill authorizes corporations to be organized and managed, under the supervision of the Federal Reserve Board, to deal in international banking, with special powers. It will be of great service to

our foreign commerce, will afford an important medium of placing European credits with the American investing public, and stabilizing foreign exchange, to the great benefit of American commerce.

Everyone who is at all familiar with international commerce and international exchange must have observed the steady going down of foreign exchanges with those countries who have been lately the great belligerents, such as Great Britain, France, Belgium, and Italy. The value of the pound sterling has fallen below \$4.30 from \$4.86, and yet I take it that no man in his sober senses has the slightest doubt about the solvency of the British Empire, or the ability of the British people to meet their obligations in due time under reasonable conditions.

The French exchange has gone from its normal of 5.18 down approximately to 7 francs for a dollar, instead of 5.18 francs for a dollar.

The Italian exchange has gone down still more, to a point where the lire, which is normally worth 5.18 lire to the dollar, is now down nearly to 9 lire to the dollar. The consequence is that any Italian merchant who attempts to buy dollars from the United States for the purpose of paying for cotton or steel or copper or any other of the raw materials required for the Italian markets, is compelled to pay nearly two dollars for one on top of the very high prices which have ensued in our country and in their own country by virtue of the expansion of the currency of the United States, and other conditions which have raised the prices in the United States.

It is therefore almost impossible and certainly very improvident for the Italian people to meet such a cost. It is impossible for the French and British to do so without a serious, permanent loss. Therefore, the authorities of Italy and France and Great Britain have interposed, quietly and unostentatiously, but as firmly as they could, obstacles to the purchase of American goods by Italian, French, and British importers under these conditions, hoping that the time would come when these exchanges might be adjusted so that these supplies from America coming from our surplus could be obtained on a decent and fair basis.

This has not been accomplished. The mechanism is not provided. We have no adequate way in which to meet it. The banks are not able to do this, and they must not be requested or expected to do more than they can wisely do with the resources at their command. The New York banks now—for instance, the National City or the Guaranty Trust or the Irving National—are carrying as large an amount of these foreign bills as they can afford to carry, and unless there is a mechanism provided by which these foreign credits shall be sold to the American investing public there is no way available, on the scale required to rehabilitate Europe—and I estimate that scale at from four to seven billion dollars—to restore to Europe the raw materials, the machinery, the things which are required to put Europe again on the highly productive basis it occupied before the great war.

Our banks are doing the best they can with it, as far as the purchase of these bills is concerned. Incidentally, of course, they are buying these bills at a rate which ultimately will or should net them a high profit, because the banks are merchants in credits. They buy and they sell credits. And it is not to be attributed to them as a

reproach because they buy Italian lire at 9 for a dollar, or whatever price the market may fix, due to supply and demand.

But it is not the function of our great banking institutions to put the American dollar at par, or to keep it at par. That is not their business. Their business is to buy and sell bills. Their business is to get deposits. Their business is to lend money and to make money by the lending of money, and by the commissions which they earn from rendering service to commerce.

I have insisted before this committee and I have insisted before the Federal Reserve Board and before the President of the United States that a mechanism should be provided by which the American dollar could be put to par and kept at par, neither above par nor below par. During the war the American dollar, the gold dollar, in New York went to a discount of 60 per cent in Spain, and you could buy gold American dollars, payable in New York, subject, of course, to the temporary embargo, for 66 cents apiece in Spain. Does any man in his sound senses believe that the American dollar in New York, measured in gold, and subject to a temporary embargo, was worth only 66 cents? We know better.

Of course the gold dollar of America has gone back now from a value of sixty-odd cents, as a year and a half ago it was in Madrid or Barcelona, until to-day it is worth a dollar plus, as it ought to be. In fact, it will be worth more than a dollar in Spain under these existing conditions within a very short time. In the meantime the the American dollar has risen, as relates to the British pound sterling, until it is worth \$1.12, we will say, and in France it is worth probably \$1.33, and in Italy it is probably worth somewhere in the neighborhood of \$1.70.

Senator FLETCHER. How much in Germany?

Senator OWEN. In Germany it is worth, of course, still more; in Roumania it is worth still more; in Russia it is worth still more; in terms of rubles, for reasons which are obvious to everyone.

But where nations are solvent, and where the conditions are fundamentally sound, it is obviously to the interest of the American people that the American dollar should be put to par and kept at par, so that the American dollar shall be the measure of value throughout the whole world in international transactions, and in that way expand the foreign commerce of the United States, and give an increased market to the labor of the United States and to the raw materials which are supplied by the United States for world markets.

This can not be done if no man knows what the value of the dollar is. At present men in Italy can not buy at this price, except where the urgency is extremely great. American merchants who desire to sell their goods do not wish to sell them in terms of lira, because they do not know whether the lire they will get will be diminishing in value or increasing in value. American sellers desire to be paid in terms of dollars, whose value they know. But the Italians are not in a position to buy the American dollars at a fair rate, and they do not feel willing to enter into an agreement to pay in terms of dollars within the next 12 months, because they do not know but what the dollars within the next 12 months will become more difficult to buy and will rise in value, and therefore they will be pledging themselves not to pay interest but to pay something they can not forecast and which may result in ruin to them and to their business. And the

committee must appraise these questions in order to comprehend the value of this bill introduced by Senator Edge.

The sum and substance of it is that during the last month our exports fell off over a hundred millions of dollars. This month I have no doubt the loss in our exports will be very much larger. I am informed by a cable I saw yesterday that there had come to be almost an impasse in the buying of goods from Europe here in certain particular lines, because of the factors which I have just referred to. The value of the Edge bill is this, that it provides for the organization of corporations that shall have the right to transact international banking, and which may be organized, and in which the American national banks may participate to a limited extent, and therefore it affords a means by which a quick and large capital can be made available for the purpose of extending credit to Europe through the process of buying European bills, of making agreements by which European bills may be renewed three or four times per annum, and carried along until the people in Europe shall be able to repay the loans which are extended. The purpose of this Edge bill is to organize a means by which European credits can be marketed with the American investing public. It provides a mechanism to accomplish this, and, as far as it goes, it is a valuable factor helping the general question.

I think we are all pretty well agreed that the Government of the United States is hardly in a position where the taxing power can be properly used to extend further credits to European governments, and this matter ought to be preferably left to those who are willing to extend credits of their own volition, and not to be compelled to extend credits through the taxing power. For this reason, I regard it as preferable to have a mechanism of this character established through which European credits can be marketed with the American investing public.

If this is not done, I warn this committee, as I have warned the Treasury Department time and time again, that we are going to meet with an obstruction to our foreign commerce that will react with the most injurious consequences upon the people of the United States, upon the home markets, and upon all sorts of stocks and securities. This committee will see it, and they will see it very soon, and the responsibility is on this committee to afford relief to American commerce.

I understand that this bill has been very carefully scrutinized by the Federal Reserve Board and the authorities of the Treasury Department, and that it meets with their substantial approval. I do not think the bill goes as far as it should go, but it is certainly an improvement on present conditions.

On February 20, 1918, I introduced a bill providing for the Federal reserve foreign bank, which would function in foreign banking much the same as the New York Federal Reserve Bank functions in domestic banking. I regretted very much to learn that some of the New York banks, with a great lack of vision, were under the impression that the establishment of a Federal reserve foreign bank would interfere with their profits in the handling of international exchange. It would interfere with those profits which are excessive. It would interfere with the profit which would be made by a bank in buying lire at 9 lire to the dollar, awaiting the time when it should react to

5.18 to the dollar. It would interfere with that, because it would help to stabilize international exchanges, and would bring profits on international exchanges down to a normal fixed level acceptable to all banks alike. The banks ought to be content with a reasonable profit, because the banks ought not to be willing to make profits on a basis which interferes with the commerce of the United States, and with the great productive industries of America, and with the great merchants of America engaged in importing and exporting. They ought to be willing to furnish reasonable accommodations at fair rates out of the deposits and capital which the people of the United States have placed with the banks in trust for management.

Therefore, I urged a Federal reserve foreign bank which would tend to stabilize international exchange, and which would comprise another medium for placing the European credits advantageously with the Federal reserve banking system of the United States, and through the Federal reserve banks of the United States with member banks, and through the banks with the clients of member banks who were in a position to buy these securities advantageously. The whole point is that America has gone from the position of a debtor nation to a great creditor nation, and we will have to extend the credits now to the extent of our excess shipment of commodities. And by excess shipment of commodities I mean the excess of commodity exports over commodity imports. It has been running somewhere between three and four billion dollars the past year. If we keep that up, we will be compelled to extend credits to the extent of three or four billions, or just to the extent that these commodity shipments exceed the commodity imports. That is a perfectly plain and simple matter which anyone at all familiar with international exchange must thoroughly comprehend.

I introduced again yesterday this bill providing for a Federal reserve foreign bank, which I ask to be put in the record (see Exhibit B), and I remind the committee that the Federal reserve banking system provided for the Federal reserve foreign banking facilities in the first draft of the bill, and that was put in the draft of the bill upon the advice of the great New York banks, who at that time were interested in this matter. Indeed, if I remember correctly, such a provision was put in the original Monetary Commission bill that was presented to the Senate of the United States in 1912. Yet the Federal reserve domestic banks have found themselves so tremendously engaged in the development of internal banking business that they have not been able physically to work out the system of foreign banking which was contemplated by the original act.

I remind the committee that the activities of the New York Federal Reserve Bank have been so great that they have as many as 3,000 employees in that one bank. It would be naturally larger when the Government was putting over these big bond issues, because these Federal reserve banks have been great agencies in assisting the Government in placing these bonds.

The Federal reserve act was amended when the Federal reserve banks did not exercise the functions contemplated by the original act of giving foreign banking accommodations, so as to authorize the Federal Reserve Board to require these reserve banks to discharge this function. I rather take it that the Federal Reserve Board did not have the heart to require the best of all of these banks fitted to

transact the business—that is, the Federal Reserve Bank of New York—to establish a foreign branch for the transaction of this foreign business, because the men who were in charge of the Federal Reserve Bank of New York are, after all, only flesh and blood, and there is a limit to which human beings can go in their activities.

I am very frankly of the opinion that we should extend the benefit of the Federal Reserve Banking System so as to include international banking in an orderly and organized way, without taxing to excess the banks we have already established, and I shall ask this committee to consider the question of this Federal reserve foreign bank, and I pray that it may not be considered in a partisan light, because the Federal Reserve System ought not to be regarded as a partisan matter. I should be very happy to yield any personal connection I have with it, if some other Member would be good enough to present the matter in such a way as to accomplish the result. I care nothing about any credit with regard to it. But I do feel the most profound interest in the welfare of American commerce, and you gentlemen who are now in control of the Senate of the United States are charged with an obligation to protect and to advance and to promote the commerce of the United States. You are charged with the duty, and I urge you to exercise your proper functions and meet this responsibility, and to meet it at once. There is no time to be lost. I will gladly cooperate with you. I tell you that American commerce is being paralyzed right now. I know of men who have been anxious to export goods and who could not do so because the people to whom they would sell the goods could not buy the American dollars, although they could give credits that are absolutely sound and good. I will give you an instance, omitting the names, because I think it is not desirable to give names in such a connection.

An exporting firm in New York had an order for a million dollars' worth of goods from Roumania. The leading bank in Roumania was willing to put up in terms of leis—which corresponds with the franc—an amount equivalent to the order, payable in 12 months; was willing to put up \$200,000 against the million-dollar order as an additional credit with a New York bank. This bank in Roumania has 800,000,000 leis deposits. It stands second in rank to the Government bank of Roumania. This bill would be underwritten by the exporting house. It would be underwritten by the merchant who was buying the goods. They desired to get the credit for one year, with three renewals every 90 days, paying a commission of one-quarter of 1 per cent for each renewal, making 1 per cent commission and 6 per cent for the loan. They were not able to get the accommodation and the goods could not be shipped.

It is only one of many instances, but we have got to provide the mechanism, gentlemen, and this bill helps to accomplish that. I therefore favor it.

I will be glad to answer any question you would like to ask.

Senator GRONNA. As I remember the provisions of your bill, it was more of a Government bank you proposed, was it not?

Senator OWEN. Oh, yes; it was a Federal reserve foreign bank, connected with the Federal Reserve System, and a part of the system.

Senator GRONNA. Is it not also true that all during the war, at least during part of the time during the war, the foreign countries got

the benefit, because the banks in the United States pegged the money and received foreign exchange at a much higher value than it actually was worth?

Senator OWEN. Great Britain pegged the exchange of pounds sterling by providing the money through loans from the United States to pay for all sterling bills, through Morgan & Co., at $4.76\frac{1}{8}$, which, of course, pegged the value of the pound sterling in its relative value to the American dollar, as far as British purchases were concerned, and limited the cost to Great Britain down to interest, and avoiding the loss of an adverse exchange. They were not subjected to the heavier cost that would have been reflected if they had been compelled to buy dollars at the rate of \$4 for a pound sterling instead of $4.76\frac{1}{8}$.

Senator NEWBERRY. What would be the effect of the passage of both bills?

Senator OWEN. I think it would be very beneficial indeed. It would help this matter immediately, and would offer at once a mechanism through which these credits could be obtained. The bill to establish a Federal reserve foreign bank I introduced February 20, 1918, and reintroduced yesterday as S. 2582, and I also introduced a bill (S. 2590) to establish a foreign finance corporation to function on similar lines and as the British have organized various great corporations to protect their foreign trade.

Senator GRONNA. Who suffered that loss? Of course, somebody had to stand a loss.

Senator OWEN. The consumers of the commodities ultimately paid the difference in exchange. It amounted to this, that the purchases made by Great Britain were paid for at the rates fixed in the market here for goods, plus interest only, whatever interest the purchaser paid, plus the difference between $4.76\frac{1}{8}$ and \$4.86, the gold value of the pound sterling, which made it an economical way in which Great Britain bought these goods. She only has to pay back these loans with interest and no more, excepting the slight difference between the pegged price \$4.76 and the gold value of the pound, \$4.86.

Senator GRONNA. I understand that.

Senator OWEN. Otherwise Great Britain or her merchants and people would have had to pay very much more for the commodities bought in the United States. Every loss in exchange is reflected in additional cost of commodities, so when sellers exchange gets too high or buyers exchange too low foreign purchasers must quit buying.

Senator GRONNA. When Spain would pay the United States the balance she might owe for exports, Spain would not buy American dollars, she would simply buy pounds sterling, would she not?

Senator OWEN. Spain must pay the United States in dollars and she did buy pounds sterling and use them to buy dollars in the New York pegged market.

Senator GRONNA. And she would send the pounds sterling to New York, because New York had pegged them up to \$4.76 and a fraction and necessarily somebody had to stand a loss. If nobody else, the producers would have to stand the loss.

Senator OWEN. When our dollar appreciates the American producer begins to lose his market and must absorb a part of the loss by lowering his price of necessity. The consumer stood part of the loss of buying from Spain when Spanish pesetas appreciated, but the

reduction of the value of the American dollar in Spain was due to our extending credits to Great Britain, and Great Britain using the American dollars which she got from us to pay her own debts with Spain. The consequence was that the American dollar went down in Spain. That is what happened. That cost the American consumer, of course, who bought Spanish products, just to the extent that the American dollar went down in its purchasing power in Spain.

Now that Spain and the United States are dealing separately from Great Britain, and Spain has withdrawn her gold balances in the United States (\$25,000,000), the peseta has gone to 19 cents, and our dollar is above par.

Senator GRONNA. What concerns me is this: Suppose that a foreign bank is established, and this bank would make an effort to regulate this exchange. The bank will not stand that loss.

Senator OWEN. Oh, no; the bank will be merely a medium, that is all.

Senator GRONNA. Is there anyone, except either the consumer or the producer, who necessarily must stand the loss?

Senator OWEN. It will not be any loss, Senator. If the American investing public will buy these European securities upon a safe basis, then the securities will be extended, and that will bring these exchanges back to normal, and we will not have a loss to either consumer or producer; otherwise we will have a loss to both.

Senator GRONNA. That is a matter of credit.

Senator OWEN. Certainly it is.

Senator GRONNA. That is a matter of credit, and it is a matter of either an inflated value or the true value. We all know that if these countries were not burdened with the heavy debt that they are burdened with to-day, this question would not arise, Senator Owen. It is a good deal the same as if I were worth a hundred thousand dollars and I extended my credit to a million dollars, and if you were dealing with me, naturally you would look into my financial condition, and you would question whether or not you would invest in my goods, in my securities, as a safe proposition. If you did invest, you would simply want a large discount. Is not that true?

Senator OWEN. Europe can give us security as good as gold, better than gold, because we need no more gold, and gold bears no interest in our own vaults, expands our currency, while good securities bring in interest every day as an earning. Senator, if you will pardon me a moment, and will give me the honor of your attention—

Senator GRONNA. I will. I want your interpretation of it.

Senator OWEN. It is not proposed to have these banks deal with securities that are not secure. It is not proposed that they shall take securities that are not sound. It is not proposed that they shall sell to the American investing public securities that are not absolutely stable. While it is true that Europe has been wounded, I think we have greatly misunderstood the productive capacity of Europe, and we have misunderstood, in large measure, the cost of this war. France, for instance, is holding almost entirely the bonded issue which France put out. The French people own those bonds, and the French people, therefore, who are the owners of the bonds, have on their books broadly a national debit and a personal credit balancing each other. There was not a destruction of French property except in the narrow margin on the northern part of France

where the villages were destroyed, and in some cities, where important manufacturing plants were destroyed. The body of France is not destroyed; the productive power of France is not destroyed. The French women have been taught to labor as never before. There have been brought into the field of labor as never before millions of human beings. The stimulation of invention and the development of machinery in France have grown in an enormous way. The productive power of France has probably increased not less than 50 per cent, and the indebtedness of this war, which has passed from one set of people into the hands of another set of people, is neither an asset nor a liability. When you put them against each other, they cancel each other. The French are able to pay their debts—they will pay their debts, and they will pay them dollar for dollar. There is no question in the world about the solvency of the French, or of the British, or of the Italians, or of the Belgian people.

Senator FLETCHER. Is it not true, in further answer to Senator Gronna's suggestion, that the main purpose here is to afford machinery whereby the securities that are now tied up can be released?

Senator OWEN. Yes. We have not an adequate mechanism. Senator Gronna is entirely right in what he said about this matter. There is no difference between himself and myself at all. The only thing is that we are looking at it from a different angle.

Senator CALDER. In the act of March 4, 1919, authorizing the issue of bonds, the Victory loan, there was a provision permitting the War Finance Corporation to extend a credit of \$1,000,000,000 to American exporters. Do you recall that?

Senator OWEN. Yes.

Senator CALDER. Do you know if anything was ever done under that?

Senator OWEN. They have practically done nothing, and it is a pity. They have done nothing. That money has not been used, and is not going to be used.

Senator CALDER. Has any of it been used?

Senator OWEN. A little of it, but practically none at all. They have been confused. Mr. Eugene Meyers, Director War Finance Corporation, went over to Europe recently to find out what to do, and how to do, but he has no definite plan to submit. If he had any plan to submit, he would assuredly act on it. If he has any legislative plan to submit, he would come to the committee. Nothing is being done, and I tell you that something has to be done. You can not sit here and allow the foreign commerce of this country to go on the rocks.

I should like also to have printed as a part of the record a bill introduced by me yesterday providing for a Foreign Finance Corporation (Exhibit C).

Mr. Chairman, I have not talked to any of you gentlemen in regard to this. I would be glad to know what the attitude of the committee is in regard to this matter.

The CHAIRMAN. We have not taken any action on it. We are trying to get action. Senator Edge was here, and he made a brief statement this morning, but we had no stenographer, and I wish Senator Edge would repeat his statement, if he is willing to do so—if you have finished, Senator Owen.

Senator OWEN. I have. I did not know that Senator Edge was here, or I would not have taken the floor. I am very deeply interested in this matter, and regard it as a matter of supreme national importance.

STATEMENT OF SENATOR WALTER E. EDGE, OF NEW JERSEY.

Senator EDGE. Senator Owen, I heard most of your discussion about the bill, and approve very heartily of it. May I ask at the outset just what the objection raised by Senator Gronna during my absence was? I would be glad to answer any thoughts or inquiries he might have so far as in my power.

Senator GRONNA. I am not advocating the passage of this bill. I do not want to be obstructive, but I want to know what benefits we are going to derive from it.

Senator EDGE. Quite a correct inquiry.

Senator OWEN. I think your statement would be addressed directly to that, would it not?

Senator EDGE. Entirely so. I will endeavor to be very brief. I spoke on the bill informally this morning.

Senator OWEN. I think it is well to remember that your remarks this morning were not recorded, and therefore they should be repeated for the benefit of the record. There are a number of the members of the committee not present who would like to see what would be said about this.

Senator EDGE. My interest in this subject has been developed, I might say, from two or three standpoints. In the first place, I have been personally engaged in foreign business for many years, have some direct knowledge of the normal situation in countries abroad importing from outside, and to some extent have been modestly a student of the financial conditions that have been brought about because of the war.

In my judgment, a bill patterned along the line of this bill is to-day the very first step for this Congress to dispose of in order to help solve many of the problems of reconstruction that I hope we are going to face when we dispose of Shantung, the league of nations, and all that is related thereto.

As Senator Owen pointed out, to-day an American dollar abroad, because of the abnormal credit balance in our favor, is worth in France, as I recall the last statement, between 7 and 8 francs. I think I can read you a short paragraph appearing in a New York paper this morning which presents the matter in as clear a manner as I could present it. Foreign exchange is confusing, as to what it means, as to why, if an American dollar is worth \$1.40 in France and a pound sterling is now worth only about \$4.20, that it is not an advantage to America because of the apparently greater value of our dollar. Let me read this:

WHO LOSES?

When an American sells a bill of goods in dollars to a European consumer the former gets the stated price in dollars, without any regard to the exchange market, while the latter has to pay the purchase price plus the premium on dollars in exchange. If this premium happens to be large, as it is at present, the European loses considerably.

Very naturally, if he has to pay \$1.40 for a dollar's worth of goods..

But the American gets no more. Thus there is a loss for one party but no apparent profit for the other. Of course, ordinarily, with only supply and demand at work, the profit for the American would be in the selling price part of it. Now, say bankers, who are frankly concerned with the exchange and the export situations, the European will soon reach a point where he will refuse longer to shoulder the loss, but will pass it back to the American producer by the simple expedient of refusing to buy.

That is perfectly simple. At the present time we have a merchant marine. It is figured out that that merchant marine is sufficient to carry more than half the average exports of this country. It makes no difference what the policy of this Congress may be, whether they sell the ships to private owners, or whether they attempt to continue them themselves, we can not use a merchant marine until we arrange so that the American producer, the American farmer, the American manufacturer can be paid for the goods we are going to export in those ships. That is the first problem to solve before we decide what we are going to do with the merchant marine.

We well know that almost all problems are centered around production—be it agricultural production, be it manufacturing commodities, or whatever it may be—the labor problem. We employ more labor if we produce more goods, if our market is larger, if we can be paid for the goods we produce. We recognize to-day, because of our almost inexhaustible resources, that in addition to the selfish, economic interest to get a market, we have certain responsibilities with the world at large that we can not evade. We have already loaned, in round figures, \$9,000,000,000 abroad. It is generally stated—and I do not think disputed, so far as I have heard—that we must produce, in money or goods, two or three billion more, and before things are anywhere near equalized, before our American dollar will be purchased abroad in the shape of the exchange of goods, we must receive securities or goods in return. Is it not better for us to provide a way—not secure anything, not underwrite anything, but to provide a way—for the American business man to send goods abroad, rather than for the Federal Government to levy taxes, or in some method or another raise another two or three billion dollars to lend abroad, in order to equalize this condition? In the former method, as provided, or at least the method provided under this bill, the American producer makes a profit. Under the other method the American citizen pays a tax.

The proposition is perfectly simple and is, in my judgment, the first, the crying necessity, for this Congress to act upon.

Here is a cablegram received just a few days ago:

London Daily Mail refers bill you have introduced. It is imperative legislation be enacted promptly and American banks and industries support same, as each day's delay is working injury which will take months to right. Unless prompt action is taken, without doubt foreign Governments will be obliged to embargo against everything except vital amount foodstuffs, and especially raw materials. Each injury to American trade will be difficult to remedy.

GEORGE GASTON.

George Gaston is one of the firm of Gaston, Williams & Wigmore, well-known exporters.

Senator FLETCHER. Let me ask you a question there, if it will not interrupt you, just to bring the matter down to a concrete illustration. We all, it seems to me, must agree with the general position that you have taken and that Senator Owen has taken. We can get at it a little more clearly if we name a case, and let us just suppose a case.

Suppose I am the owner of phosphate mines in Florida, and Germany—trade restrictions having been removed—wants phosphate, and wants it very badly. I am offered a price for the phosphate which is very tempting, and affords me a profit, as much as I have not been able to make in some time because this product could not move during the war, and I want to sell to the German purchaser. Of course, he offers to pay me there when the goods are delivered.

Senator EDGE. Perhaps he will.

Senator FLETCHER. And in marks. I find that it is going to cost him not only the pretty high price on account of freight rates, the cost of mining, etc., but he has to pay about 300 cents for our dollar, if I demand payment in gold. In the first place, he can not pay in gold. If I say to him, "Send your gold to New York and settle there," he will say, "I can not do that; I have not got the gold." Does this bill of yours relieve a situation like that; and if so, how?

Senator OWEN. That is its deliberate intention.

Senator FLETCHER. I gathered that to be the effect, but what I want to know is, how does it relieve that?

Senator EDGE. I was leading up to that. But I wanted to paint the picture as perfectly as possible.

The bill provides relief for that very situation, or any situation where an American has sold a bill of goods abroad and can not finance his business by accepting the long-term bonds or whatever may be offered him by the purchaser. This corporation has power supplementary to the Webb Act, already a law, which provides for American producers and manufacturers to combine and do business abroad, which you all know about.

This bill provides that an American corporation can be formed, the majority of the stock held by American citizens, absolutely confined to international business, a combination of industry, banks, or any American institutions that desire to be stockholders in such corporation, under the complete control and supervision of the Federal Reserve Board, just as our banks are, which, of course, in itself, is very much better than if we incorporated it under a State and did not have that supervision.

Then the problem would be like this: You have an offer for phosphate. You advise the agents of this corporation that you have such an order. They arrange, if they have not already done so, through their agents to buy securities abroad in the various countries in which we are doing business; on those securities they issue, it is provided by the bill, debentures, in other words, whatever the securities are it may be a mortgage on the plant you are selling to, it may be Government securities, it may be anything they would consider a valid security by their agents. They (the corporation) issue debentures here, purchased by the public, and with the income from them they absolutely finance and pay you for your phosphate. In other words, we consolidate a large amount of capital so that they can finance the sale where individual firms could not do it singly and alone. That is the whole plan.

Senator OWEN. They will buy the bills and pay the money on the bills and then issue debentures, so that you get your money out of it.

Senator EDGE. You go to a national bank and borrow money in order to buy a bill of goods, and you give certain security. This is done in the same way, except, dealing with foreign Governments, it

becomes necessary to have a large combination of cash. But it does more than that. That is what I tried to bring out.

Senator OWEN. It provides for a combination of experts.

Senator EDGE. It does very much more than that. It increases our market, it allows us to equalize these present abnormal credit balances, it permits us to do the humanitarian things we talk about that we have to do anyhow, at a profit to our people, rather than at an expense, and, of course, like any other development, it employs men, and it rebounds everywhere.

Senator NEWBERRY. If I understand clearly, one of the great benefits of this proposed act would be that it not only provides for an organization of capital, but for an organization of experts to pass on foreign credit, which no single individual bank could hope to have.

Senator OWEN. That is absolutely essential. We must have a highly organized corps of experts for this purpose.

Senator EDGE. There must be agents and correspondents in every capital city to investigate. Here is a letter received from a manufacturer of agricultural implements, a very small concern, the Bateman Manufacturing Co., a very old house. I imagine they do not employ over 200 hands. It says:

GRENLOCH, N. J., June 24, 1919.

Senator WALTER E. EDGE,
Senate Chamber, Washington, D. C.

DEAR SENATOR: We note with very much interest announcement in this morning's Philadelphia Public Ledger in regard to the bill which you propose to introduce in the Senate respecting the financing of foreign countries in making purchases in the United States.

This is particularly interesting and pertinent to us at this time, as the writer has been laboring with the proposition made us through the Roumanian Government to furnish them agricultural machinery, for which they would give us in exchange their three-year bonds. After considerable effort to handle these bonds through our bankers or to get any indorsement of them by the Government, we have been obliged to decline the business.

Under this bill he could have applied, the same as he would apply in a local matter, to his local banks.

We have also had some Russian business offered us which undoubtedly we will lose because of their inability to finance it by paying us cash, which is the only basis on which we feel we are safe in accepting the business at this time.

We sincerely trust that something real and tangible will grow out of your efforts to develop a bill which would finance especially those countries which are so much in need of help. We feel there is nothing so important at the present hour to the commercial interests of this country and the financial interest of the war-devastated countries as this very effort which you are making, inasmuch as it is most fundamental in that we are helping them to help themselves.

I have not expressed it better than he expresses it, nor as well.

Senator GRONNA. Could this corporation get funds from any other source than these two? They would either have to have sufficient funds to transact this enormous business or they would have to be permitted to sell their own securities.

Senator EDGE. Yes.

Senator GRONNA. Could there be any other way?

Senator EDGE. Not unless the Government would purchase, and we are not asking even Government participation.

Senator GRONNA. We are not going into that. I do not think your bill provides for that.

Senator EDGE. Absolutely not. There is no reference to it. It simply incorporates with governmental supervision.

Senator GRONNA. I take it, then, that the strongest argument you can make in favor of your bill will be the fact that this corporation would, as Senator Owen states, have the expert information and would be able to cooperate and coordinate so that these securities would be worth more than if these individual nations, as individuals, or as individual nations, should issue them?

Senator EDGE. Yes.

Senator GRONNA. At any rate, they would have to be issued based upon the credit of some of these nations, would they not?

Senator EDGE. Absolutely. They must investigate their credit the same as you would investigate in domestic sales the credit through a local banking institution. But perhaps this answers your query. In the ordinary financial regulation they would probably issue six times, in debentures, the amount of their actual capital stock subscribed. Of course, it is turning over all the time. Under the bill Senator McLean introduced the member banks were permitted to invest 5 per cent of the total capital and surplus in such corporations.

Senator GRONNA. How do you arrive at the real solution for meeting these two conditions, that the American dollar is worth par and the money in foreign countries is away below par? Where is that harmonized?

Senator EDGE. That is an old supply and demand situation that is entirely regulated by credit and debit. At the present time we have a tremendous credit balance, and that makes foreign exchange high. I am not sufficient of a financial expert to tell you why.

The CHAIRMAN. Senator, Europe has got to manufacture goods somewhere to pay these debts.

Senator OWEN. She has to do it or sell her other properties in some way or other.

The CHAIRMAN. A wholesome way is for her to manufacture goods and exchange.

Senator OWEN. Quite right.

Senator EDGE. In some cases we would rather have goods.

The CHAIRMAN. But this is impossible, as I understand it, until they can get credits with which to provide themselves with raw material.

Senator EDGE. Machinery and raw material. Those are the main things wanted.

The CHAIRMAN. And it is to our interest, being a creditor nation, to enable them in a safe way to rehabilitate themselves commercially.

Senator EDGE. It seems to me to be our interest from every viewpoint. I can not see it any other way. It is not taking a dollar out of our country. It is bringing it in. Any other method will take it out.

The CHAIRMAN. Any encouragement we can lend them is a good business proposition for us.

Senator EDGE. And broadens our market in every way.

The CHAIRMAN. Provided it is hedged about with the proper safeguards.

Senator GRONNA. In other words, we are encouraging the importation of their goods in order to pay us for whatever we may ship to them.

The CHAIRMAN. Not necessarily to us, but to somebody in exchange for money.

Senator EDGE. Of course, Senator Gronna, I think you will admit that we can not to-day, with our greatly increased manufacturing facilities, brought about to some extent by the war and the natural enterprise of the country, get along in this country just selling goods to ourselves. I think that is plainly demonstrated. We have to have foreign markets. We always have had.

The CHAIRMAN. That is a matter that will have to be regulated, probably. The Senator is now anticipating competition. When we come to that, it will have to be regulated in another way.

Senator EDGE. I have not the copy here, but you probably noticed in the press about a week or 10 days ago an article from London telling of the formation in England of something similar—I forget what the amount of the capital was—or exactly the same kind of a corporation, to enable British producers to go into South America.

Senator OWEN. The capital is, I think, £50,000,000 or \$250,000,000, and the title is Overseas Trade Corporation. They have recently organized the Overseas Banking Corporation.

The CHAIRMAN. There is just one provision here I want to call attention to. It says:

And lend money on real estate and personal estate.

Do you know what that is intended to embrace?

Senator EDGE. Of course, that was drawn by the counsel of the Federal Reserve Board.

Senator OWEN. It might include the mortgage on a foreign plant offered as security.

Senator EDGE. That is about the only type of security some of the purchasers could offer.

The CHAIRMAN. That would be my interpretation of it. But I wanted to be sure.

Senator GRONNA. If it is the purpose to organize this foreign bank to lend, we will say, to Great Britain or some other European country for them to go to some South American country and establish industries—agricultural or manufacturing—why would it not be just as well for American capital to establish those industries there?

Senator EDGE. We are doing that, and that is our best field, because the rate of exchange is not so prohibitive, because the credit balances are not so extreme as they are between European countries and ourselves. We are selling goods all the time, however, and that is what we want to do. When we sell goods, we can not direct what shall be done with them after they are sold. We are here to sell whatever we are manufacturing, and we are able to compete with Great Britain in South America. We will, with our merchant marine, be at an advantage, I imagine, because we will be establishing direct trade routes.

Senator GRONNA. Of course, our labor in this country will have to compete with European labor.

Senator EDGE. It will anyhow.

Senator GRONNA. Agricultural products will have to compete with European products.

Senator EDGE. They always have and always will. We can not help that.

Senator GRONNA. To some extent I do not agree with you on that. It does hold good whenever we have an overproduction, but it does hold good when we have not.

Senator EDGE. Of course, that would regulate that to an extent.

The CHAIRMAN. If they are driven to repudiation over there, I think the effect of it will be seriously reflected here.

Senator EDGE. Senator Gronna, I think the great big point to consider is the fact that we are facing, that we must produce more money or credit abroad. There is not any question; it must come to us in one form or another.

Senator GRONNA. Why should that be done under the guise of a banking proposition, when it is in fact simply a charitable, humane proposition? It is simply, in fact, as it appears to me, an inflation for the purpose of lifting up the credit of those countries. It can not be anything else. I do not altogether contend that we should not do that. But why must it be done under the guise of foreign exchange or a foreign banking transaction?

Senator EDGE. Do you not think it is better to do it, not under the guise but by direct broadening of our export business, than that it should be done by raising money through taxation and loaning it to them?

Senator GRONNA. That is a fair question. I believe in doing it absolutely in the open, calling it whatever it is. If it is a transaction for the purpose of loaning money to Europe, that is one thing. Let us do it, of course. If it is for the purpose of setting somebody up in business in order to reap immense fortunes out of it, that is another proposition.

Senator EDGE. I do not see how that can be accomplished from the bill. It is a combination for both rehabilitating Europe and broadening the market for American producers and manufacturers—all in the open, absolutely. It is under the Federal Reserve Board's jurisdiction, where, if we did not pass such a bill, there is absolutely nothing to prevent investment financial houses doing the same thing, without any control or supervision, so far as making money for those interests is concerned.

Senator GRONNA. As I understand you, then, you admit that this law is not asked simply for the purpose of regulating the exchange between foreign countries.

Senator EDGE. That is only incidental to it. It is one of those necessary things we have to do in some form or other, and this helps our problem. The main reason for this bill—let me make it as emphatic as I can—is to broaden the market for the American producer, manufacturer, agriculturist, or whoever has goods to sell and to be paid for them; that is all. Anything else that it does in the way of helping solve our problems I am very glad to see it do.

Senator OWEN. I do not regard it as a charity.

Senator EDGE. It is not a charity. It is an absolute business proposition.

Senator OWEN. It is not a charity to sell wheat to Germany, for instance. We know at the present time they are in need of food. They have but a limited amount of gold. I do not regard Germany as broken, and I think Germany will rehabilitate itself with great rapidity. They have an enormous productive capacity. Their country has not been greatly injured, and whatever bonds they have

sold have been sold to each other. They can pay us back dollar for dollar. I do not think that is a charity. It is a means for selling the surplus stuff advantageously to people who need it, expecting them to pay us back dollar for dollar, plus interest.

Senator EDGE. And another thing, supplementing that, we all know to-day that the European countries have imposed embargoes on all types of American exports, not only England, but France and Italy. In other words, we can send in, excepting by special license, only things they particularly want. Typewriters, for instance, sell in England to-day, I am told, for \$250 to \$300, and they will not permit an American typewriter to go in. We organize corporations of this character, and proceed to buy their securities, or take mortgages on their plants, or anything else, in order to finance and sell goods, and we are in a position to demand that those embargoes be lifted. We are in a position to stop what are known as national monopolies on the other side.

Senator GRONNA. It seems to me we have that power now, if we want to exercise it.

Senator EDGE. We had it. We lost it if we had it. We loaned nine billion without getting a thing except interest, and I do not know whether we are getting that.

Senator GRONNA. The only difference would be, that would transfer this tremendous power into the hands of this banking corporation instead of leaving it with the Government.

Senator EDGE. Under Government supervision, joined by industry that wants to do business.

Senator OWEN. It is proposed to organize any number of corporations that want to go in.

Senator EDGE. There is no limit to the number. I have a long letter from an officer of the Cotton Association, and the cotton growers in the South are arranging to organize something of this kind for their section. I do not even know whether there is any banking connection with it, except, of course, it would be banking matter when they sold the stock. My correspondence, Senator, is almost entirely from manufacturers and producers, men who want to sell goods.

What is the interest of the bankers? They are lending money—which is their business—on rates of interest. They lend money abroad. They do not get any particular advantage by this bill excepting that they are getting their business the same as anyone else is, in this case under Government supervision, and I think that is a very important part of it, that we are for once putting them under Government supervision.

Senator HENDERSON. Is it not a transaction by which the producer can facilitate his business in foreign countries in export?

Senator EDGE. Exactly. That is the whole basis, and I hope no other possible viewpoint will be taken of it.

Senator HENDERSON. There is no ulterior motive?

Senator EDGE. If there is, the Federal Reserve Board is there with absolute power and control to stop anything, to do anything. We can not have any more complete supervision.

Here are four things that I think this bill does, following Senator Henderson's suggestion: Keeps American industries going; employs labor of every kind; builds up the merchant marine—and I want

to emphasize again that you might as well scrap the merchant marine if you do not have something of this kind; prevents embargoes. Then, of course, to loan money in a way to make a profit rather than a loss.

Senator NEWBERRY. If there is no objection, let the letter of the Federal Reserve Board be included.

The CHAIRMAN. I am having some copies made of that letter.

Senator NEWBERRY. May it not be put in this hearing?

The CHAIRMAN. Yes; I will put a copy in the record.

Senator EDGE. Understand, Senators, this bill was drawn by the Federal Reserve Board, or by their counsel.

The CHAIRMAN. They have considered the bill, and they have furnished me with a report of some minor suggestions and amendments, and I am having some copies made of it. But, in a word, they approved the bill, and, as I understand, Senator Edge, it was drawn by their counsel.

Senator EDGE. Drawn by the counsel of the Federal Reserve Board, at my request. In their 1917 report they asked for a similar bill, even when the conditions were nothing like as striking as they are now. That is found on page 33 of the Annual Report of the Federal Reserve Board, and reads:

Such a banking corporation, being essential to a national enterprise, whose stock ownership by national banks was authorized by an act of Congress, would appear to be entitled to the benefits and protection of a Federal charter, which would be of great value in competing for business in foreign countries.

(Thereupon at 11.45 o'clock a. m. the committee adjourned until to-morrow, Thursday, July 24, 1919, at 10 o'clock a. m.)

(The report of the Federal Reserve Board referred to is as follows:)

EXHIBIT A.

FEDERAL RESERVE BOARD,
Washington, July 21, 1919.

HON. GEO. P. McLEAN,
*Chairman Banking and Currency Committee,
United States Senate, Washington, D. C.*

MY DEAR SENATOR: I have received your letter of July 17, 1919, inclosing a copy of Senate bill 2472, introduced by Senator Edge on July 15. You ask for an analysis of this act and for such recommendations as the Federal Reserve Board may care to make in the circumstances.

This bill is drawn for the purpose of amending section 25 of the Federal Reserve act by providing for the incorporation under the Federal law of institutions to engage principally in international or foreign banking or other international or foreign financial operations, including banking or other financial operations in a dependency or insular possession of the United States.

Section 25 of the Federal Reserve act, as amended by the act of September 7, 1916, authorizes any national banking association possessing a capital and surplus of \$1,000,000 or more to file an application with the Federal Reserve Board for its permission, first, to establish branches in foreign countries, and second, to invest an amount not exceeding 10 per cent of its capital and surplus in the stock of one or more banks or corporations chartered "under the laws of the United States or any State thereof" and principally engaged in international or foreign banking. In order to promote the foreign commerce of the United States certain national banks have organized corporations of the kinds described in this section under various State laws for the purpose of providing this means of financing American exporters and importers. The persons interested in these corporations, however, have made numerous appeals to the Federal Reserve Board and to Members of Congress for the enactment of a law authorizing the incorporation of institutions of this character under Federal charter, it being argued, very reasonably and logically, that section 25 of the Federal Reserve act contemplated that Congress would permit the Federal incorporation of institutions of this kind when it provided that national banks might invest in the capital stock

of such corporations chartered either "under the laws of the United States or of any State thereof."

As you are probably aware, an act prepared and recommended by the Federal Reserve Board and substantially similar to the one introduced by Senator Edge was at one time passed by the Senate. For some reason of which I am not at this time certain, the bill was not passed by the House. I believe, however, that it never even received consideration by the House, and I mention this merely that you might not think it was voted down.

The Federal Reserve Board has in several of its annual reports to Congress recommended the enactment of a bill similar to the one now under consideration, and for your information I take pleasure in quoting herein an extract from the annual report of 1917, printed on pages 32 and 33 of that report, setting forth certain reasons for the favorable consideration of the bill.

"An amendment of section 25 to provide for the Federal incorporation of banking associations whose stock is owned by national banks which operate under the control of the Federal reserve banks and which are engaged solely in international and foreign banking. The present law permits any national bank to invest an amount not exceeding in the aggregate 10 per cent of its paid in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States. This language appears to indicate an intention by Congress to permit incorporation under the laws of the United States, and several national banks have become stockholders in banks which have been organized under State laws for the purpose of carrying on a foreign banking business in accordance with the terms of this section. The arguments in favor of Federal incorporations are:

"(a) The time will probably come when the conflict of the dual control exercised by the Federal Reserve Board and by the banking department of a State may be a matter of embarrassment or operate to restrict the activities of the banking corporation.

"(b) Such a banking corporation, being essentially a national enterprise, whose stock ownership by national banks was authorized by an act of Congress, would appear to be entitled to the benefits and protection of a Federal charter, which would be of great value in competing for business in foreign countries."

I should call your attention, however, to one element in this bill which differs slightly from the ones heretofore introduced; that is, that the corporations are to be chartered for the purpose of engaging principally in international or foreign banking "or other financial operations." The purpose of inserting the term "or other financial operations" is to provide for the Federal chartering of institutions of the kinds in which national banks are authorized to invest in a bill (S. 2395) which was passed by the Senate some time during the past 10 days. The bill under discussion—that is, S. 2472—would not, therefore, be complete did it not provide for the organization of corporations permitted to engage in "other financial operations" as well as those which come strictly within the term "banking."

The credit situation in Europe at the present time is such that in order to maintain a stable market for our exports it will be necessary not merely to grant short-time commercial credits of the kinds contemplated under the terms of section 25, as originally enacted, but also, long-term investment credits of the kinds contemplated by S. 2395, which authorizes national banks to organize corporations to be engaged principally in such phases of international or foreign financial operations as may be necessary to facilitate our exports. To this end Senate bill 2472 provides for the organization of corporations which shall be permitted to engage both in the business of international or foreign commercial banking and in other financial operations as distinguished from commercial banking, such as shall be necessary to assist in the development and maintenance of the commerce of the United States.

The bill provides in substance, first, a method and means of organizing these corporations under Federal law, and then sets forth the powers which they may exercise. These powers include the powers of the ordinary discount and investment corporation, including the power to buy and sell drafts, checks, bills of exchange, acceptances, cable transfers, and other evidences of debt, including the obligations of the United States, or any State thereof, and to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may prescribe, to borrow or loan money on real or personal security, to receive deposits, and generally to exercise such powers as are incidental to the powers conferred by the act or as may be usual in the transaction of banking or other financial operations in the country in which the corporation transacts business. This latter power is absolutely essential in order to enable these corporations successfully to compete with foreign institutions of a similar character. The corporation is also authorized, subject to

the approval of the Federal Reserve Board, to establish branches and to own or control other corporations not transacting business in the United States. The act also provides that the Federal Reserve Board may grant permission to these corporations to exercise fiduciary powers in so far as they may be necessary to the conduct of the foreign or international business engaged in by the corporation. The board believes that the granting of this power is not essential and that it may only serve to arouse unnecessary opposition on the part of certain State trust companies.

It is suggested that on page 4 of the bill, after line 16, the following clause be inserted: "Under such rules and regulations as the Federal Reserve Board may prescribe," so that line 16 shall read as follows: "Each corporation so organized shall also have power, under such rules and regulations as the Federal Reserve Board may prescribe." This insert is suggested in order that there may be no doubt that all of the operations of the corporations chartered are subject to the general supervision of the Federal Reserve Board.

The board agrees fully with the purpose of the two sentences included in lines 1 to 10, on page 8, beginning "any member bank may act as agent," but it suggests, solely for the purpose of clarity, that those lines be amended so as to read as follows:

"Notwithstanding the provisions of section 19 of the Federal reserve act any member bank may act as a medium or agent for any corporation organized under the provisions of this section in applying for or receiving discounts from a Federal reserve bank under rules and regulations to be prescribed by the Federal Reserve Board. The Federal Reserve Board is authorized, under rules and regulations to be prescribed by it, to permit Federal reserve banks directly to extend their facilities in the manner and to the extent defined in such regulations to corporations organized under the provisions of this section. No such corporation, however, shall become a member of any Federal reserve bank."

It is also suggested that for the purpose of clarity, page 1, line 10, be amended by inserting the word "in" between the words "or" and "banking" so that line 10 shall read as follows: "ing or other financial operations, or in banking or other financial."

With these slight changes the Federal Reserve Board earnestly indorses the proposed bill and suggests that its enactment is even more essential at this time than when its adoption was first recommended by the board. The board knows no one way in which the present European credit situation may be more effectively dealt with than by the incorporation of institutions of the kinds provided for in this bill, and anything that betters that situation assists not merely in the gigantic task of reconstruction in Europe but also in providing a market for our own exports and in developing our foreign commerce in a most effective and satisfactory way.

Very truly, yours,

W. P. H. HARDING, Governor.

EXHIBIT B.

[S. 2582, Sixty-sixth Congress, first session.]

A BILL To amend the act approved December 23, 1913, known as the Federal Reserve Act, as amended by the acts of August 4, 1914, August 15, 1914, March 3, 1915, September 7, 1916, and June 21, 1917.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 14 of the act known as the Federal Reserve Act be, and is hereby, amended as follows:

Strike out all in paragraph (e) of section 14 and insert in lieu thereof:

"(e) To establish accounts with other Federal reserve banks and with the Federal reserve foreign bank."

After section 25 insert a new section, as follows:

"SEC. 25a. There is hereby created a Federal reserve foreign bank of the United States, to be under the supervision of the Federal Reserve Board, and to be located in the city of New York, State of New York.

"The Federal reserve foreign bank of the United States, hereinafter referred to as the foreign bank, shall have an authorized capital of \$100,000,000 and shall begin business with a paid-up capital stock of \$20,000,000. The stock of such bank shall be offered at par to the banks of the United States and to the public by the Secretary of the Treasury, any stock not subscribed for to be taken by the Treasury of the United States subject to sale at the option of the Secretary of the Treasury.

"The capital stock of the foreign bank shall pay 5 per centum annual dividends if earned and shall not be taxable by any State or municipality or by the United States. The 5 per centum dividend if not earned in any one year shall be cumulative. Any surplus shall be distributed as follows: One-half to surplus and one-half to the United

States, until 50 per centum surplus on the then outstanding capital shall have been accumulated, and thereafter such surplus dividends shall be paid into the Treasury of the United States.

"The Federal Reserve Board shall prepare an organization certificate and file the same with the Comptroller of the Currency.

"Upon the filing of such certificate with the Comptroller of the Currency as aforesaid, the said foreign bank shall become a body corporate, and as such shall have the power—

"First. To adopt and use a corporate seal.

"Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an act of Congress.

"Third. To make contracts.

"Fourth. To sue and be sued, complain and defend, in any court of law or equity.

"Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this act, to define their duties, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

"Sixth. To prescribe by its board of directors by-laws, not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this act.

"The foreign bank shall be conducted under the supervision and control of a board of directors, consisting of nine members appointed by the President upon the advice and consent of the Senate.

"One of the directors appointed by the President shall be known as the governor, and one as the Federal reserve agent. The directors shall name a committee of five as an executive board to actually manage the affairs of the bank. The members of the board shall be citizens of the United States over thirty-five years of age and be men of tested mercantile experience and be fairly representative of the various parts of the United States.

"The directors shall be designated by the President to serve for from one to nine years, respectively, and thereafter each member so appointed shall serve for a term of nine years, unless sooner removed for cause by the President.

"After the first year the directors shall annually elect the governor and vice governor from among the directors appointed by the President of the United States.

"The salaries of the directors and officers shall be fixed by the Federal Reserve Board and be paid from the earnings of the foreign bank: *Provided*, That the governor of the foreign bank shall receive \$25,000, the vice governor \$15,000, and the reserve agent \$10,000.

"The directors of the foreign bank shall receive in addition to their salary a reasonable allowance for necessary expenses in attending meetings of the board.

"The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and perform all such duties as are prescribed by law.

"Said board shall administer the affairs of the foreign bank fairly and impartially and without discrimination, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to Federal reserve banks and to member banks, and to all other banks and bankers throughout the country, and to foreign banks and bankers such accommodations as may be safely and reasonably made in relation to foreign banking business.

"The powers of the foreign banks shall be as follows:

"To receive deposits from American and foreign banks and bankers, from the United States or foreign Governments, in current funds in lawful money, national-bank notes, Federal reserve notes or checks and drafts, payable upon presentation, and also for the collection of maturing notes and bills.

"The foreign bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or which are to be used for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this act.

"The aggregate of such notes, drafts, and bills, bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank, shall at no time exceed 5 per centum of the net unimpaired capital and surplus of said foreign bank, but this restriction shall not apply to the discounting of

bills of exchange drawn in good faith against actual existing values. The foreign bank may discount acceptances of the kinds permitted under the authority of this act.

"The foreign bank shall not at any time be indebted or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the following nature:

"First. Notes of circulation.

"Second. Moneys deposited with or collected by the foreign bank.

"Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the foreign bank or due thereto.

"Fourth. Liabilities to the stockholders of the foreign bank for dividends and reserve profits.

"Fifth. Liabilities incurred under the provisions of the Federal reserve act. The discounting and rediscounting and the purchase or sale by the foreign bank of any bills receivable and of domestic and foreign bills of exchange and of acceptances shall be subject to such limitations, restrictions, and regulations as may be imposed by the Federal Reserve Board.

"The foreign bank shall have power—

"(a) To deal in gold and silver coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold.

"(b) To buy and sell, at home or abroad, bonds and notes of the United States, bonds and notes of foreign governments, and bills, notes, revenue bonds, and warrants, with a maturity from date of purchase of not exceeding six months, issued in anticipation of the collection of taxes or in anticipation of the receipt of assured revenues by any State, county, district, political subdivision, or municipality in the continental United States, including irrigation, drainage, and reclamation districts, such purchases to be made in accordance with rules and regulations prescribed by the Federal Reserve Board.

"(c) To purchase and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions as hereinbefore defined.

"(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount and exchange and commissions for the opening of credits at home or abroad, to be charged by the foreign bank for each class of paper which shall be fixed with a view to accommodating commerce and business.

"(e) To issue bank notes and receive Federal reserve notes upon like terms and conditions as now provided for the Federal reserve banks.

"(f) To open credits at home and abroad for account of domestic and foreign banks or bankers, to facilitate exports and imports to and from the United States, and exports and imports to and from one foreign country to another foreign country.

"(g) Upon the direction and under rules and regulations prescribed by the Federal Reserve Board to establish branches and agencies in foreign countries for the purpose of facilitating commerce with the United States.

"(h) No bank, banker, corporation, or individual, other than the foreign bank, shall sell dollar balances at less than gold par except as payment for merchandise imported into the United States without the express authority of the Federal Reserve Board."

EXHIBIT C.

[S. 2590, Sixty-sixth Congress, first session.]

A BILL To incorporate a Foreign Finance Corporation to provide means of acquiring and selling public and private foreign securities, extending credits against the same, and assisting in the development of the foreign trade of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That a Foreign Finance Corporation shall be established with a capital of \$1,000,000,000, divided into ten million shares of \$100 each. Two million five hundred thousand shares shall be subscribed and paid for by the War Finance Corporation, two million five hundred thousand shares may be subscribed and paid for by banks and trust companies incorporated under the laws of the United States or of any State thereof in the manner hereinafter specified, and five million shares shall be subscribed and paid for by individuals, firms, companies, or corporations other than banks or trust companies, hereinbefore mentioned in the manner hereinafter specified.

SEC. 2. That the subscribers to the said Foreign Finance Corporation, their successors and assigns, shall be, and are hereby, created a corporation and body politic by the name, style, and title of "The Foreign Finance Corporation" (herein called "the corporation"), and shall have succession for a period of twenty years.

SEC. 3. That the Secretary of Commerce is authorized and hereby directed, under rules and regulations to be prescribed by him, to receive, approve, and allot subscriptions for the capital stock of the corporation from banks, trust companies, individuals, firms, companies, and other corporations in the aggregate sums heretofore specified. The War Finance Corporation, through its board of directors, is hereby directed and instructed to subscribe to two million five hundred thousand shares of the Foreign Finance Corporation.

SEC. 4. That the principal office of the corporation shall be located in New York City, New York, but the corporation shall be authorized to establish branches or agencies in any city or cities of the United States or any foreign country, under rules and regulations to be prescribed by the board of directors.

SEC. 5. That the management of the corporation shall be vested in a board of directors, consisting of nine members, three of whom shall be annually appointed by the Secretary of Commerce, three of whom shall be elected annually by the stockholding banks and trust companies, and three of whom shall be elected by the stockholding individuals, firms, companies, or corporations other than banks or trust companies.

SEC. 6. That the corporation shall be empowered and authorized to adopt, alter, and use a corporate seal; to make contracts; to purchase or lease and hold or dispose of such real estate as may be necessary for the prosecution of its business; to sue and be sued; to complain and defend in any court of competent jurisdiction, State, Federal, or foreign; to appoint by its board of directors and fix the compensation of such officers, employees, attorneys, and agents as are necessary for the transaction of the business of the corporation, to define their duties, require bonds of them, and fix the penalties thereof; and to prescribe, amend, and repeal by its board of directors by-laws regulating the manner in which its general business may be conducted and the privileges granted to it by law may be exercised and enjoyed, and prescribing the powers and duties of its officers and agents.

SEC. 7. That the corporation shall be empowered and authorized (1) to make advances upon such terms not inconsistent herewith as it may prescribe to any foreign Government, with or without security, or to any bank, banking institution, or trust company, or other corporation organized or operating under the laws of any foreign country or to any individual or firm located in or doing business in a foreign country for the purpose of importing goods from the United States into such foreign country or into other foreign countries: *Provided, however,* That the corporation shall not make any advances for the purpose of directly financing individual short-term transactions which are in their nature self-liquidating; (2) (a) to buy and sell, at home or abroad, the obligations evidencing the advances made under paragraph (1) of this section, and to sell any securities pledged as collateral to such obligations; (b) to buy and sell, at home or abroad, foreign securities, whether public or private; that is, securities of any foreign Government, municipality, or political subdivision, or securities of any individual, firm, or corporation of the kind described in subparagraph (1) of this section: *Provided, however,* That the corporation shall not engage in the business of buying and selling notes, drafts, bills of exchange, or other short-term obligations arising out of transactions which in their nature are commercial or self-liquidating, and shall not engage in any other business or exercise any other powers except those that are expressly defined or conferred by this act and except those that are necessarily incidental to the exercise of such express business or express powers. (3) That the corporation shall be empowered and authorized to issue and to have outstanding at any one time its bonds in an amount aggregating not more than ten times its paid-in capital, such bonds to mature not less than one year and not more than twenty years from the respective dates of issue and to bear such rate or rates of interest as the corporation may determine. Such bonds shall have a first and paramount floating charge on all the assets of the corporation which shall not at any time be mortgaged or pledged by the corporation; such bonds may be offered for sale publicly or to any individual, firm, corporation, or association at such price or prices as the corporation may determine; such bonds shall not be eligible for purchase or discount by any Federal reserve bank, and no note, draft, or bill drawn for the purpose of buying or carrying such bonds, whether or not secured by such bonds, shall be eligible for purchase or rediscount by a Federal reserve bank.

SEC. 8. That the corporation shall not exercise any of the powers granted by this act, or perform any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Secretary of Commerce to

commence business under the provisions of this act. The corporation shall be authorized to begin its business whenever five million shares shall have been subscribed.

SEC. 9. That neither the War Finance Corporation nor any other shareholder in the corporation shall be liable beyond the amount of its subscription to the capital stock of the corporation for the payment of any bond or other obligation issued or incurred by the corporation, nor shall any such shareholder as such incur any liability in respect to any act or omission of the corporation.

SEC. 10. That whoever makes or authorizes to be made any statement in writing, knowing it to be false, for the purpose of obtaining for himself or for any other person, firm, corporation, or association any advance under this title, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years or both.

Whoever (1) falsely makes, forges, or counterfeits any bond, coupon, or paper in imitation of or purporting to be an imitation of a bond or coupon issued by the corporation; or (2) passes, utters, or publishes, or attempts to pass, utter, or publish, any false, forged, or counterfeited bond, coupon, or paper purporting to be issued by the corporation, knowing the same to be falsely made, forged, or counterfeited; or (3) falsely alters any such bond, coupon, or paper; or (4) passes, utters, or publishes as true any falsely altered or spurious bond, coupon, or paper issued or purporting to have been issued by the corporation, knowing the same to be falsely altered or spurious, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years or both.

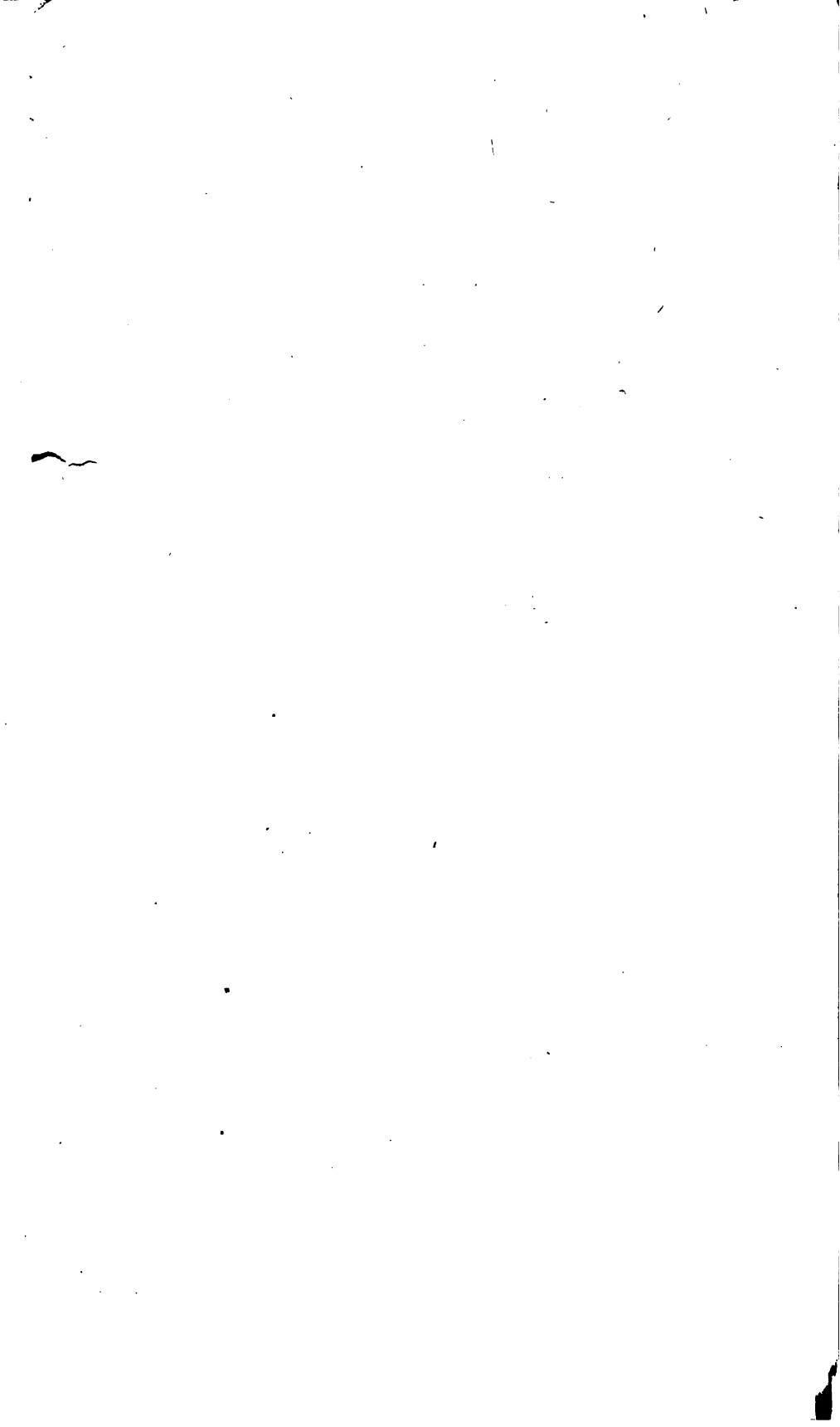
Whoever, being connected in any capacity with the corporation, (1) embezzles, abstracts, or willfully misapplies any moneys, funds, or credits thereof, or (2) with intent to defraud the corporation or any other company, body politic or corporate, or any individual, or to deceive any officer of the corporation (a) makes any false entry in any book, report, or statement of the corporation, or (b) without authority from the directors draws any order or assigns any note, bond, draft, mortgage, judgment or decree thereof, shall be punished by a fine of not more than \$10,000 or by imprisonment for not more than five years, or both.

The Secretary of the Treasury is hereby authorized to direct and use the Secret Service Division of the Treasury Department to detect, arrest, and deliver into custody of the United States marshal having jurisdiction over any person committing any of the offenses punishable under this section.

SEC. 11. The corporation shall file quarterly with the Secretary of Commerce a report of its business in such manner and form as may be directed by the Secretary of Commerce, who shall make an annual report to Congress of the operation of such corporation.

SEC. 12. That the term "securities" as used in this act shall include bonds, debentures, notes, certificates of indebtedness, and other such obligations (not stocks).





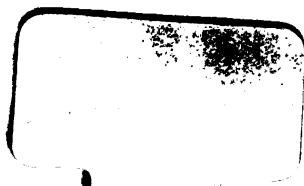
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